

SUMMARY

Charity Care has continued a strong growth pattern. Since the four quarters ending September 30, 2003, Charity care dollars have grown 129% while Other billed revenue has only increased 19%. Over the past two years, Charity care has grown from \$189 million to \$472 million. The four quarter period ending June 30, 2005 saw jumps of 6.7% in bad debt and 43.3% in charity care, resulting in an overall growth rate of 22.8% for uncompensated care. Uncompensated care accounted for 4.57% of total patient revenue, which is slightly higher than the previous record high of 4.55% in the quarter ending December 31, 2004.

The annual growth rates of 12.8% for total patient service revenue, 16.9% for contractual adjustments, and 8.8% for net patient services revenue for the period ending June 30, 2005 have been relatively similar to recent periods. Total and Net patient service revenue categories' growth rates had been slowly increasing since the four quarters ending December 31, 2004.

For the year ending June 30, 2005, the increase of 5.5% in total operating expenses per adjusted discharge is much higher than the 2.5% advance in the overall Consumer Price Index and slightly above the 5.0% jump in the hospital services component of the index.

Net operating income rose significantly by 24.4% over the year ago level, this was also a significant 38.9% improvement over the period ending December 31, 2004.

Accounts receivable overall declined to 62.5 days of revenue for the four quarter period ending June 30, 2005. Days in accounts receivable were down by 5.4 days for Medicare, 3.8 days for Medicaid and 2.2 days for Other payers.

ANNOUNCEMENTS

Visit the Department of Health web site at <http://www.doh.wa.gov/EHSPHL/hospdata> where you can find a large variety of hospital data and reports. Among the items available are individual hospitals raw data reports by quarter as well as hospital

discharge data and reports, and hospital year end financial data and reports. There are also summarized reports of the data as well as a Directory of Hospitals, CHARS Procedure Manual, *Accounting and Reporting Manual for Hospitals*, and Charity Care reports. The current and archived copies of the *hospTRENDS* can be found at: <http://www.doh.wa.gov/EHSPHL/hospdata/hospTrend/>

If you are currently receiving this report on paper via postal mail, you could be receiving it up to a week earlier by email notification. However, if you prefer email notification you must ask for it. Please call (360) 236-4216 or send an electronic message to ric.ordos@doh.wa.gov to change the form of delivery of your *hospTRENDS* report.

Your opinions are important to us. Please let us know what you like or don't like about the content and presentation of the *hospTRENDS* report. Contact information is available on page 5 of this issue.

BACKGROUND

All licensed hospitals in the State of Washington submit summary financial and utilization data to the Department of Health following each calendar quarter. Reported data are edited, summarized, and analyzed by Hospital and Patient Data Systems staff. Specific data elements are defined in the Department's *Accounting and Reporting Manual for Hospitals*. Utilizing these data, various financial and utilization rates and ratios are calculated to enhance the description of the financial condition of hospitals in the state. The purpose of this series of reports is to provide all concerned parties with information describing emerging hospital utilization and financial trends.

Instead of focusing on individual quarters, the data in this report are aggregated into twelve month periods consisting of four calendar quarters each. This aggregation reduces the impact of seasonal fluctuations, which could distort actual trends occurring within the hospital industry.

The period covered by this report includes the last two calendar quarters of 2004 and the first two

calendar quarters of 2005. It provides a look at the first half of the 2005 calendar year. However, it is important to remember that this preliminary view is subject to change. Since audits are normally performed on an annual basis, data submitted on a quarterly basis have not been subjected to the audit review process. The hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. Any revisions resulting from the audit process will be reflected in the hospital's year-end reports. In addition to reflecting audited data, year-end reports also provide substantially greater detail, allowing analysis of the information provided in greater depth.

FINANCIAL INDICATORS

Total Patient Service Revenue

Total patient service revenue, which is the sum of billed charges for all hospital services, increased by \$2.3 billion to \$20.1 billion, which was an increase of 12.8%. The growth rate of 13.3% for total outpatient revenue was the highest since the period ending September 30, 2003. The increase of 9.7% for Other revenue was the third period in a row with less than a 10% increase. The last previous period for Other with increases under 10% was in 1996.

Contractual Adjustments

For the twelve months ending June 30, 2005 contractual adjustments reached \$10.4 billion. The annual increase rate was 16.9%. By payer group, contractual adjustments were up 11.1% for Medicare, 19.3% for Medicaid, and 19.2% for other payers. The Medicare increase was the lowest since the period ending December 31, 1997. The growth rate for Medicaid was the highest realized since the four quarter period ending September 30, 2003 and the growth rate for Other payers was the highest realized since March 31, 2001. Contractual adjustments for Medicare and Medicaid reflect the difference between billed charges and the amounts that are actually paid. The difference between billed charges and the payment rates negotiated with major health insurers, managed care plans, HMOs, and other contractual payers is included in contractual adjustments for other payers.

Uncompensated Care

Charity care is 4.6% of deductions from revenue and bad debt expense is 4.8% of operating expense. Charity care has been growing very rapidly during the past year. Charity care has grown by 43.3% while bad debt has grown by 6.7%, for a total jump in uncompensated care of 22.8%. Over the past two years, charity care has grown from \$189 million to \$472 million. For the second period in a row, Charity care is larger than bad debt. Uncompensated care is composed of charity care and bad debt expense. While charity care is part of the deductions from revenue category and bad debt is part of the operating expense category, they are very similar. Each represents billed charges for hospital services that are not paid. Charity care represents charges that are not paid by patients who are **unable** to pay, while bad debt expense arises from charges that are not paid by patients who are **unwilling** to pay.

Net Patient Service Revenue

Net patient service revenue is defined as the amount of inpatient and outpatient revenue actually realized by hospitals. In the four quarter period ending June 30, 2005 net patient service revenue reached \$9.76 billion, which was an increase of \$785 million, or 8.8%, over the corresponding period a year ago. This was the eighth annual increase in a row that was between 7.7% and 8.9% in net patient service revenue. By payer, the annual rates of increase in net patient service revenue were 20.4% for Medicare, 16.2% for Medicaid, and 0.8% for other payers.

Operating Expenses

Growing by 8.2%, or \$705 million, operating expenses reached \$9.4 billion in the twelve month period ending June 30, 2005. Operating expenses are the costs of providing health care services to hospital patients. Since there was an increase in aggregate volume during the period, operating expenses per adjusted discharge only increased by 5.5%. Still this increase substantially exceeded the 2.5% annual increase in the consumer price index for the same period, and was slightly above the 5.0% annual increase in the hospital services component of the index. Bad debt expense was 4.8% of total operating expense; however it increased more slowly at 6.7% than overall operating expenses did at 8.2%.

Net Operating Income

Net operating income increased 24.4% to \$407 million in the twelve month period ending June 30, 2005. This is second period in a row with an increase. The \$407 million is a new high since the start of the quarterly reports. This value is sensitive to any changes in any income statement component since it is such a small percent of the total and net patient service revenue amounts as well as the operating expense. Net operating income is an important source of funding for replacement of buildings and equipment as well as the acquisition of modern medical technology; however it is not the only source. Many hospitals also have income from activities other than the provision of patient care services.

UTILIZATION INDICATORS

Discharges, Patient Days, and Length of Stay

Inpatient activity is primarily measured by discharges and patient days. Discharges from Washington hospitals continued to grow; reaching a total of 536,209 discharges during the four quarter period ending June 30, 2005. This was a gain of 11,762 discharges, or 2.2%, over the

corresponding year ago period. During the same interval, patient days expanded by 16,211 days, or 0.7%, to 2,296,939 days. Since patient days grew more than discharges, average length of stay dropped from 4.35 to 4.28 days. This is the lowest average length of stay since December 31, 2000.

Adjusted Discharges

Adjusted discharges reached a total of 953,251 in the four quarter period ending June 30, 2005. This was a increase 2.49%, from the four quarter period ending June 30, 2004. Adjusted discharges are utilized as an aggregate indicator of hospital activity. To calculate adjusted discharges, inpatient discharges are multiplied by the ratio of total patient service revenue to inpatient revenue (excluding skilled nursing facility revenue). With this adjustment, total patient service revenue per adjusted discharge is equal to inpatient revenue (excluding skilled nursing facility revenue) per inpatient discharge. Adjusted discharges are necessary for computing average rates, since total patient service revenue is the only financial indicator that can be split into inpatient and outpatient components.

OPERATING INDICATORS

Rates per Adjusted Discharge

Rates per adjusted discharge relate hospital financial indicators to the "average" patient. Total patient service revenue per adjusted discharge is the total bill for the average patient stay. Deductions from revenue per adjusted discharge is the portion of this average bill that is not paid by Medicare, Medicaid, or health insurers, or is written off as charity care. Net patient service revenue per adjusted discharge is the amount of revenue the hospital actually receives from the average patient stay. Operating expense per adjusted discharge is the cost of providing services to the average patient. Net operating income per adjusted discharge is the amount of money the hospital is able to earn from the average patient stay. Rates per adjusted discharge for the twelve month periods ending June 30, 2004 and June 30, 2005, and the percentage changes were:

<u>Rate per Adjusted Discharge</u>	<u>FYE 6/30/04</u>	<u>FYE 6/30/05</u>	<u>Percent Change</u>
Total Patient Service Revenue per Adjusted Discharge	\$19,190	\$21,117	+10.0%
Deductions from Revenue per Adjusted Discharge	\$9,544	\$10,882	+14.0%
Net Patient Service Revenue per Adjusted Discharge	\$9,646	\$10,235	+6.1%
Operating Expenses per Adjusted Discharge	\$9,294	\$9,809	+5.5%
Net Operating Income per Adjusted Discharge	\$352	\$427	+21.4%

FINANCIAL RATIOS

Financial ratios are utilized to reflect the relationship between selected financial indicators. The financial ratios selected for this report are not all encompassing, but represent financial indicators that can be readily calculated from the data available through the quarterly reporting process as currently designed without requesting supplemental data from the reporting hospitals.

Days in Accounts Receivable

During the twelve month period ending June 30, 2005 accounts receivable averaged 62.5 days on a statewide basis, which was 5.8% less than the year earlier period. Medicare days in accounts receivable decreased by 5.4 days, or -10.8%, to 45.1 days and days in accounts receivable for other payers decreased by 2.2 days, or 2.8%, to 74.7 days, while Medicaid days in accounts receivable declined by 3.8 days, or 5.7%, to 63.4 days. Total days in accounts receivable has been below 70 days since the period ending June 30, 2002. In the four quarter period ending June 30, 2005 average days in accounts receivable for individual hospitals ranged from 25 days to 111 days.

Operating Margin

Operating margin compares net operating income to total operating revenue. In the twelve month period ending June 30, 2005 operating margin was 3.92%, which was 14.8% more than the year earlier period. The margin of 3.92% is a new high since the period ending December 31, 1997.

Deductible Proportion

The deductible proportion compares total deductions from revenue to total patient service revenue. For the four quarter period ending June 30, 2004 the deductible proportion reached 51.5%, which was an increase of 3.6% over the year earlier level. The deductible proportion has grown every quarter since the four quarter period ending June 30, 1996 and has reached another new high. At the current level, a hospital must bill \$2.06 to realize \$1.00 in net revenue.

Contractual Proportion

The contractual proportion compares total contractual adjustments with total patient service revenue. Likewise, the Medicare, Medicaid, and other contractual proportions are computed by comparing each payer group's contractual adjustments to the corresponding total patient service revenue for the same payer group. The

total contractual proportion reached 49.2%, which was an increase of 2.7% and was another new high, during the four quarter period ending June 30, 2005. The contractual proportion has grown every quarter since calendar year 1995. The Medicare contractual proportion of 55.8% and the Medicaid contractual proportion of 52.2% are well above the contractual proportion for other payers of 43.5%. The Medicare proportion actually decreased 2% in this time period however this was offset by the 3.5% increase in Other.

Uncompensated Care Proportion

The bad debt proportion, charity proportion, and total uncompensated care proportion, compare bad debt expense, charity care, and total uncompensated care to total patient service revenue. In the four quarter period ending June 30, 2005, the bad debt proportion reached 2.22%, which was an decrease of 5.4% over the previous year. The charity care proportion reached 2.34%, which was an increase of 27.0% over the previous year and is the highest since records have been kept. The total uncompensated care proportion reached 4.57%, which was an increase of 8.9% over the previous period. Total uncompensated care was only 2.8% in the period ending June 30, 2003. The current rate is 63.2% higher than two years ago.

Inpatient and Outpatient Revenue

The proportion of total revenue to inpatient revenue and the outpatient revenue percentage are alternate ways of looking at the relationship between inpatient and outpatient revenue. Between the annual periods ending June 30, 2004 and June 30, 2005, the outpatient revenue percentage increased from 43.2% to 43.4%, while the ratio of total revenue to inpatient revenue slightly increased from 1.76% to 1.77%. After peaking in the four quarter period ending June 30, 2003, these ratios have been relatively stable. Outpatient revenue had been growing at a faster rate than inpatient revenue until this time period.

Medicare and Medicaid Revenue

The primary payers of hospital bills are the Medicare and Medicaid programs. The Medicare and Medicaid revenue percentages indicate the proportion of total hospital business that these programs represent. In the twelve month period ending June 30, 2005 the Medicare percentage was 35.4% and the Medicaid percentage was 15.7% for a total of 51.1% of the hospital revenue.

Washington State

Hospital Financial and Utilization Trend Update - Quarter Ending June 30, 2005

For additional information, comments, and suggestions, or to receive future editions of this report, please contact:
Center for Health Statistics/Hospital and Patient Data Systems

Post Office Box 47814

Olympia, WA 98504-7814

Telephone: (360) 236-4216 -- Fax : (360) 664-8579

Electronic Mail: ric.ordos@doh.wa.gov

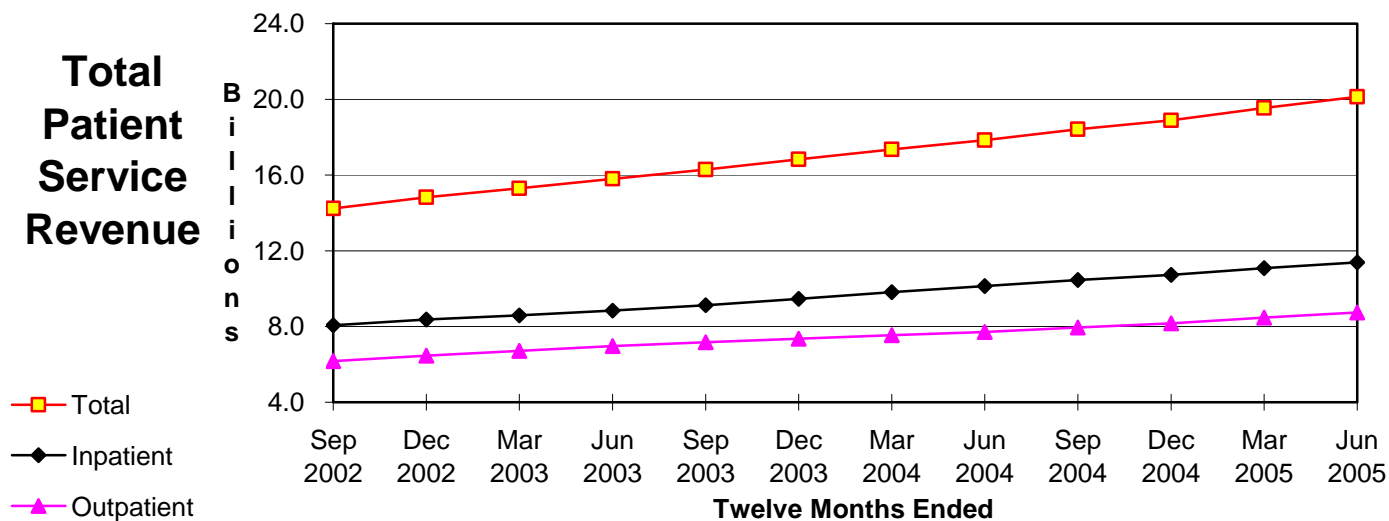
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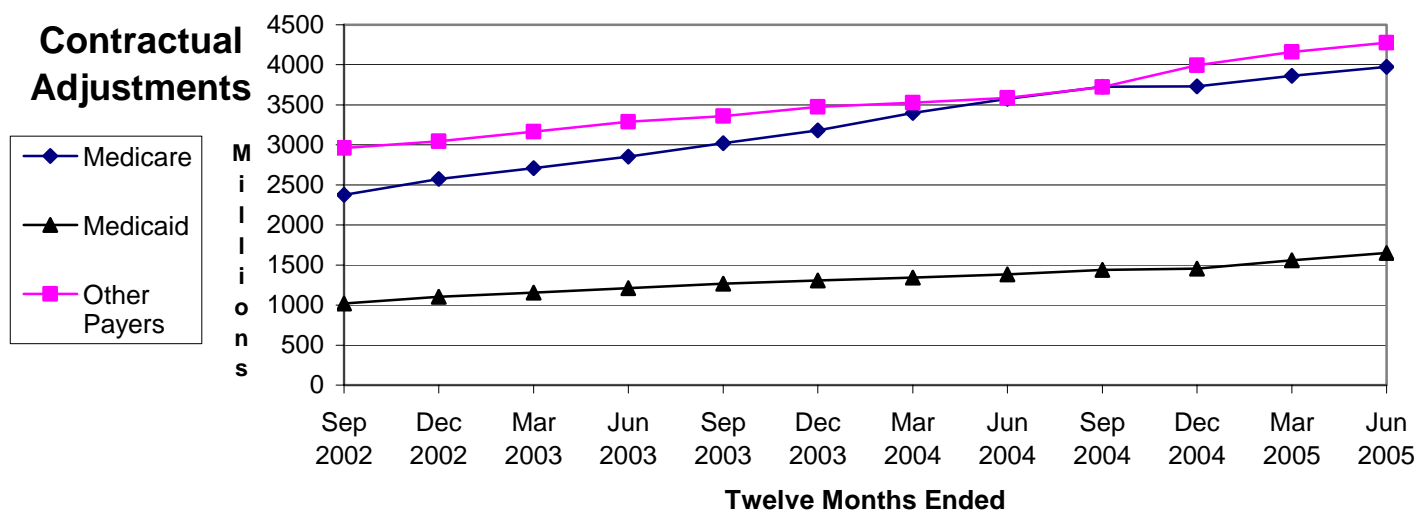
Teresa Jennings, State Registrar and Director - Center for Health Statistics

Author: Richard Ordos

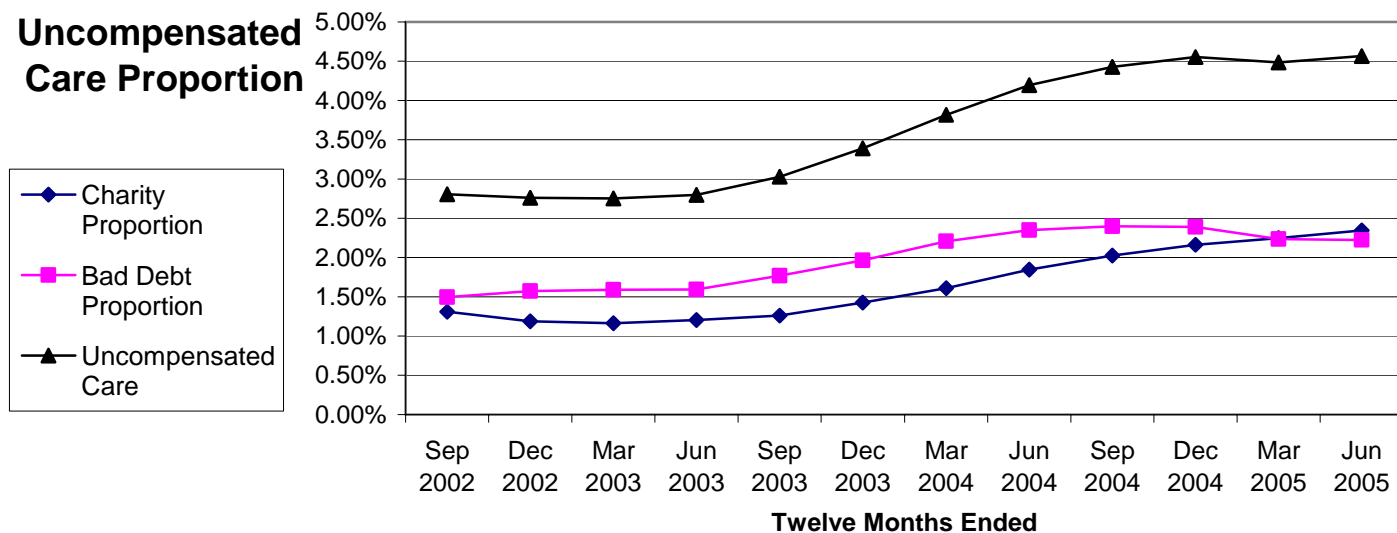
Total Patient Service Revenue

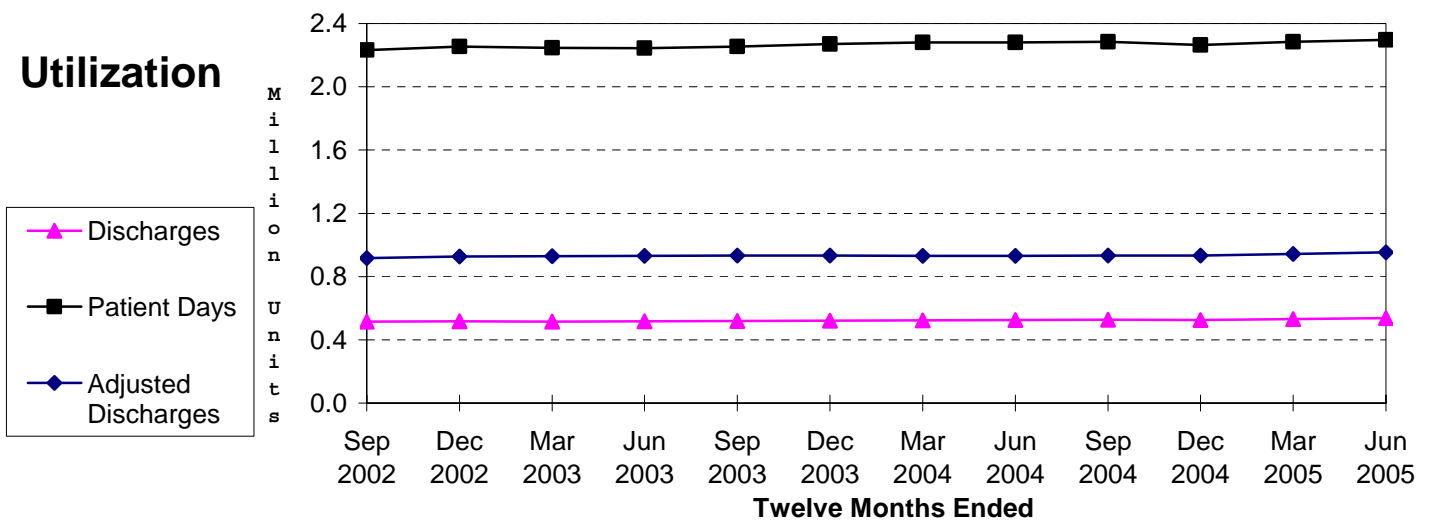
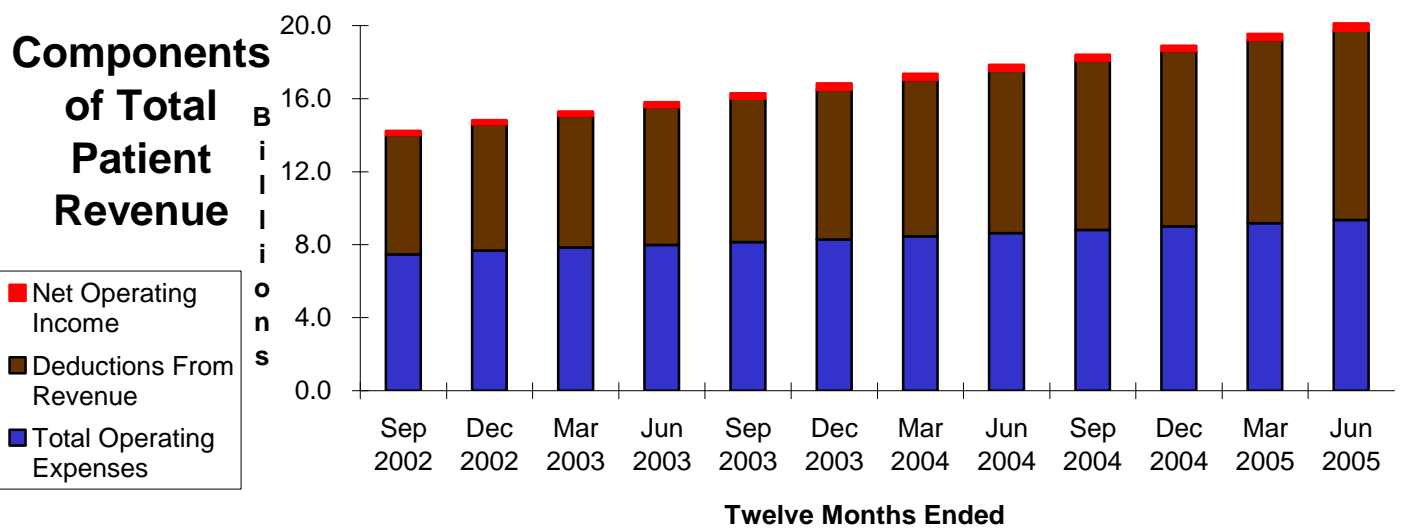
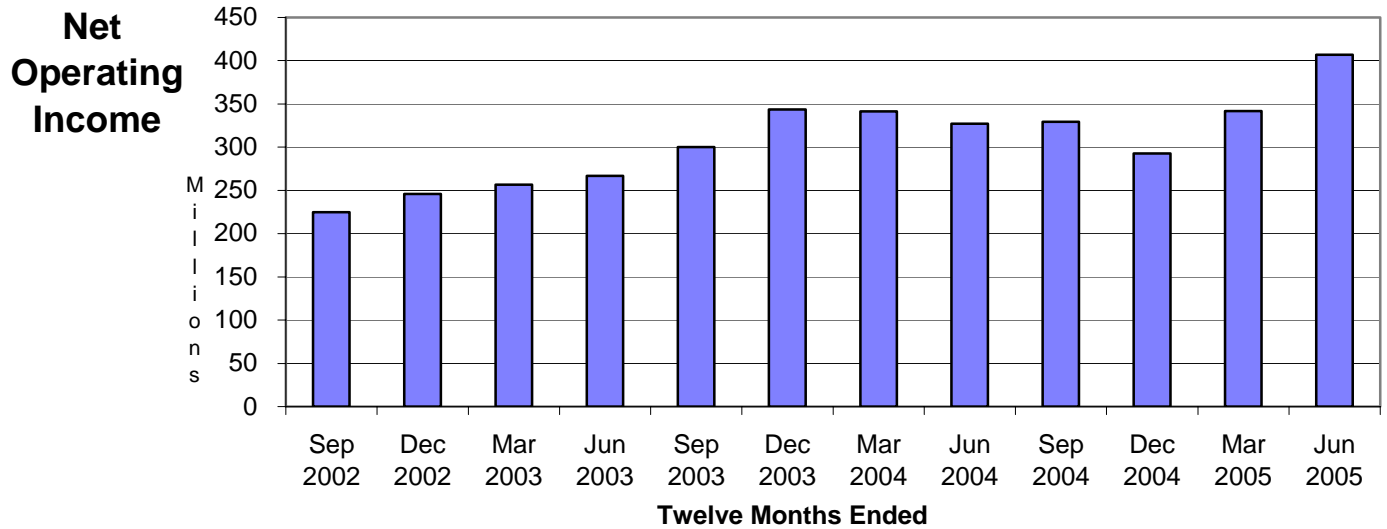


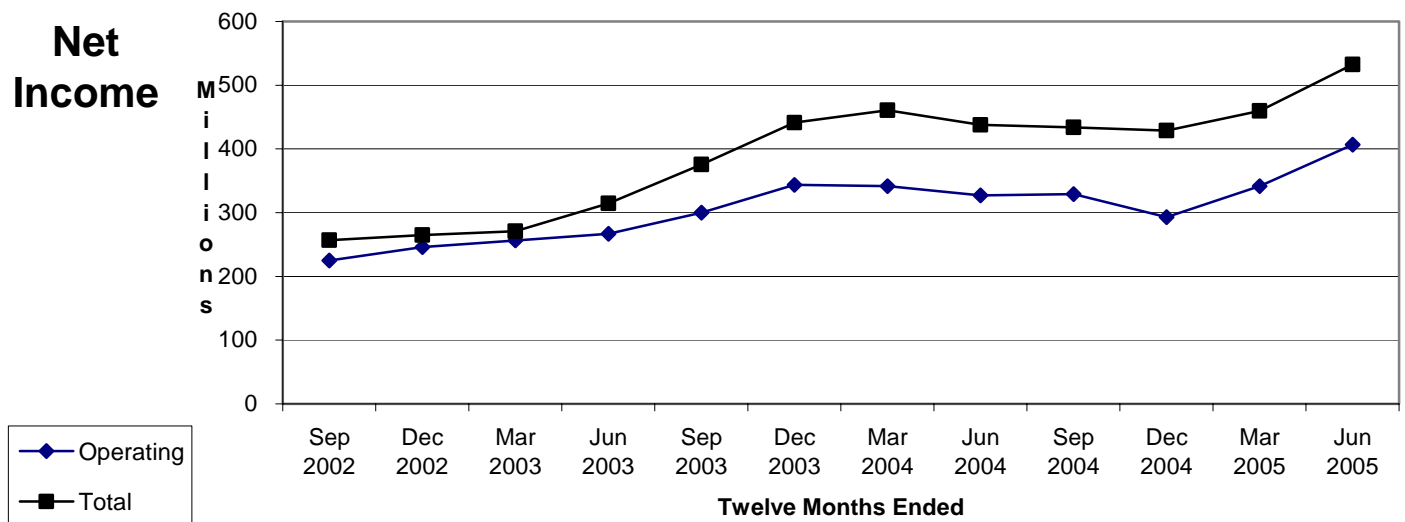
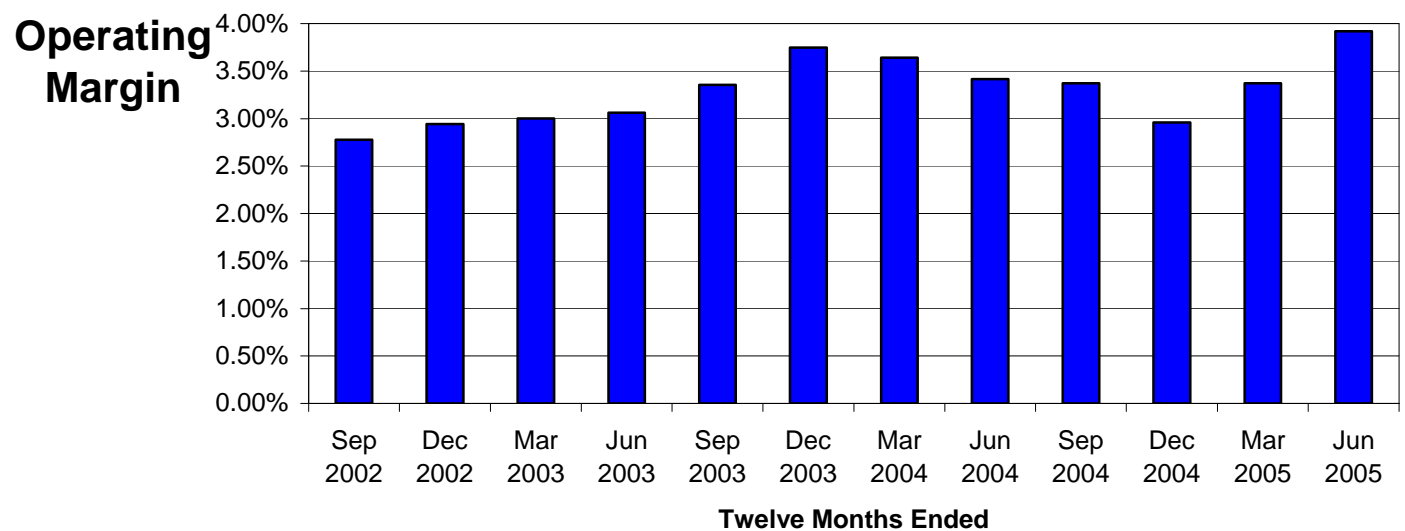
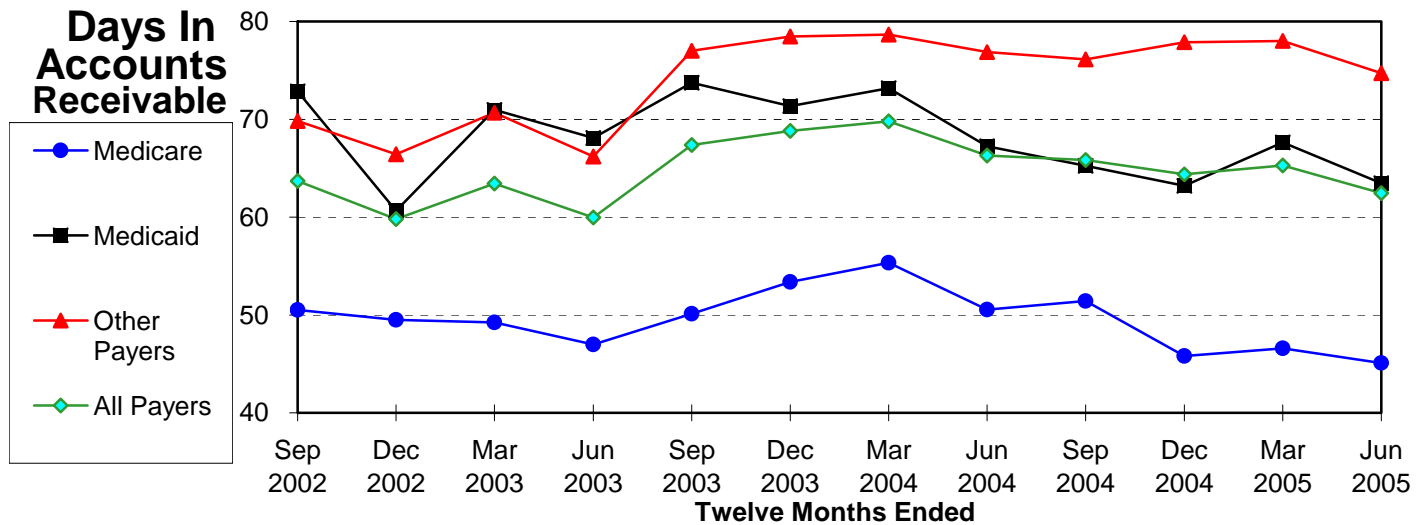
Contractual Adjustments



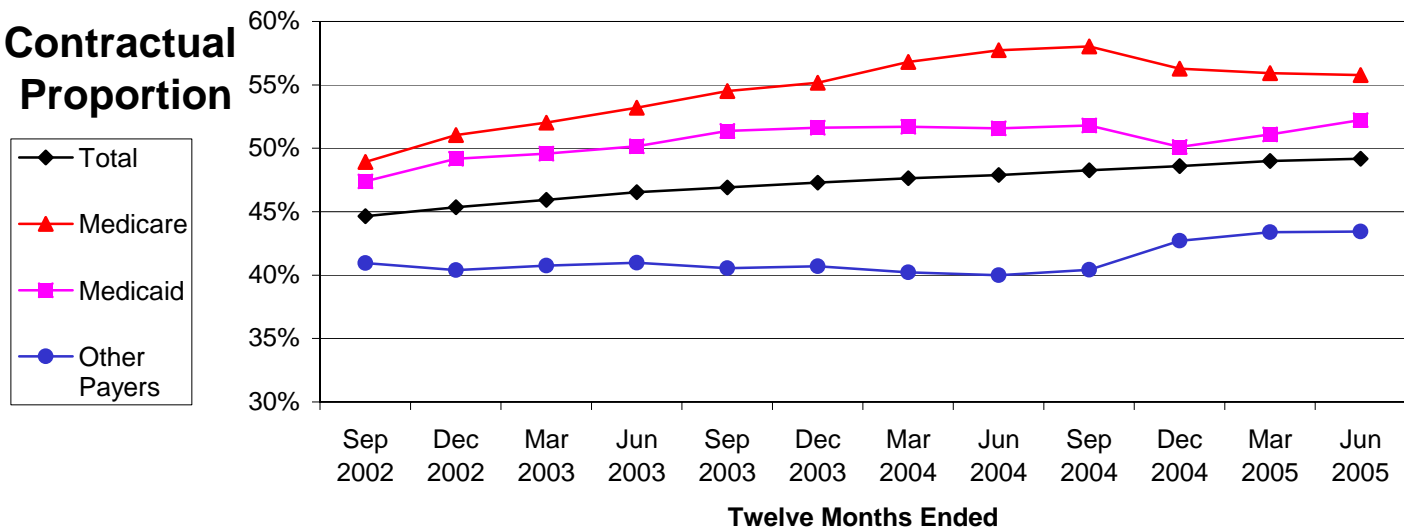
Uncompensated Care Proportion



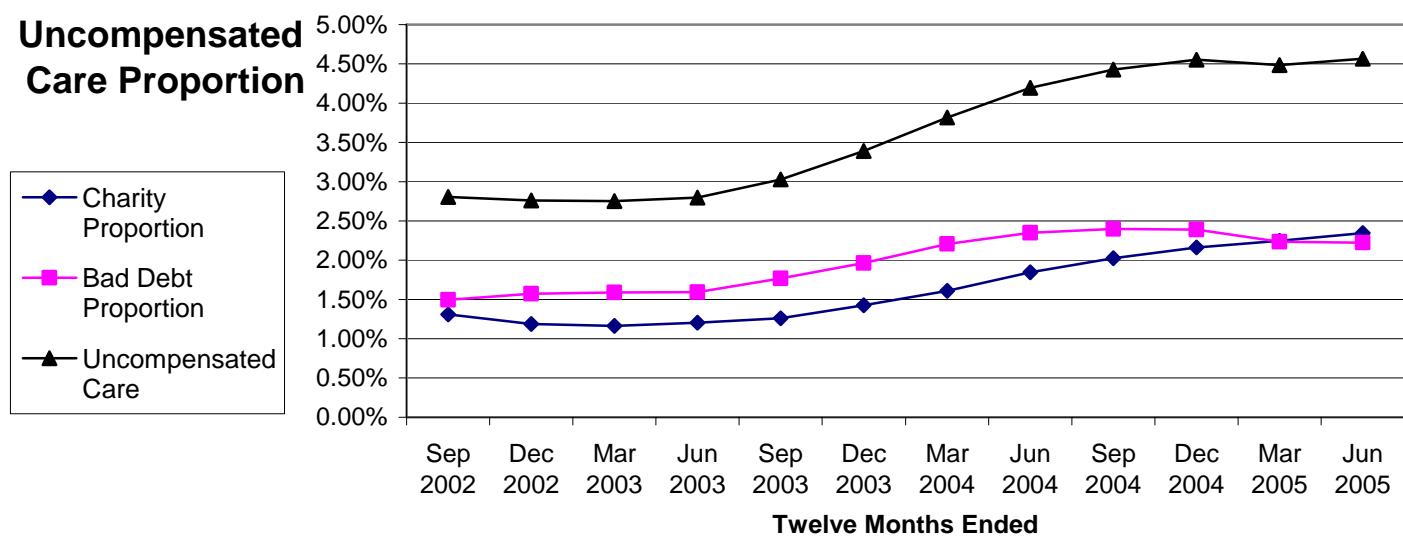




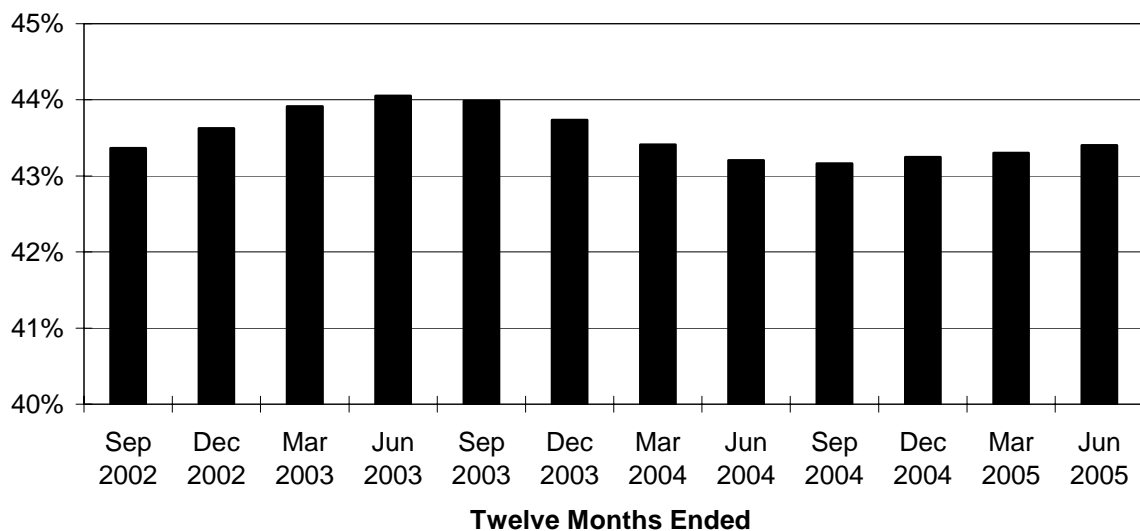
Contractual Proportion



Uncompensated Care Proportion



Percent Outpatient Revenue



HOSPITAL PERFORMANCE STATEWIDE	12 Months Ended		Total	Percent
	Jun 30 2004	Jun 30 2005	Change	Change
Total Patient Revenue				
Inpatient	10,137,044,983	11,393,387,535	1,256,342,552	12.39%
Outpatient	7,711,623,281	8,736,877,421	1,025,254,140	13.29%
Total	17,848,668,264	20,130,264,956	2,281,596,692	12.78%
Medicare	6,196,206,674	7,129,411,403	933,204,729	15.06%
Medicaid	2,679,320,442	3,156,924,173	477,603,731	17.83%
Other	8,973,141,148	9,843,929,380	870,788,232	9.70%
Deductions From Revenue				
Contractual Adjustments				
Medicare	3,577,269,288	3,975,381,860	398,112,572	11.13%
Medicaid	1,381,764,578	1,648,989,362	267,224,784	19.34%
Other	3,588,575,690	4,277,040,116	688,464,426	19.18%
Total	8,547,609,556	9,901,411,338	1,353,801,782	15.84%
Charity	329,500,886	472,016,648	142,515,762	43.25%
Total	8,877,110,442	10,373,427,986	1,496,317,544	16.86%
Uncompensated Care				
Bad Debt	419,105,678	447,243,746	28,138,068	6.71%
Charity	329,500,886	472,016,648	142,515,762	43.25%
Total	748,606,564	919,260,394	170,653,830	22.80%
Net Patient Revenue				
Medicare	2,618,937,386	3,154,029,543	535,092,157	20.43%
Medicaid	1,297,555,864	1,507,934,811	210,378,947	16.21%
Other	5,055,064,572	5,094,872,616	39,808,044	0.79%
Total	8,971,557,822	9,756,836,970	785,279,148	8.75%
Cost Recoveries	606,068,257	619,007,779	12,939,522	2.13%
Total Operating Revenue	9,577,626,079	10,375,844,749	798,218,670	8.33%
Total Gross Revenue	9,688,129,520	10,501,487,002	813,357,482	8.40%
Total Operating Expenses	8,644,560,853	9,350,001,643	705,440,790	8.16%
Net Operating Income	326,996,969	406,835,327	79,838,358	24.42%
Non-Operating Income	93,383,757	109,637,721	16,253,964	17.41%
Tax Revenue	17,119,684	16,004,532	(1,115,152)	-6.51%
Net Total Income	437,500,410	532,477,580	94,977,170	21.71%
Gross Accounts Receivable				
Medicare	855,582,048	878,479,315	22,897,267	2.68%
Medicaid	492,366,572	547,248,903	54,882,331	11.15%
Other	1,884,464,284	2,009,353,965	124,889,681	6.63%
Total	3,232,412,904	3,435,082,183	202,669,279	6.27%
Days in Accounts Receivable				
Medicare	50.5	45.1	(5.44)	-10.76%
Medicaid	67.3	63.4	(3.81)	-5.67%
Other Payers	76.9	74.7	(2.16)	-2.80%
Statewide Total	66.3	62.5	(3.83)	-5.77%
Utilization				
Discharges	524,447	536,209	11,762	2.24%
Patient Days	2,280,728	2,296,939	16,211	0.71%
Length of Stay	4.35	4.28	(0.07)	-1.50%
Adjusted Discharges	930,083	953,251	23,168	2.49%
Rates				
Tot Rev Per Adjusted Discharge	19,190	21,117	1,927.08	10.04%
Deductions Per Adjusted Discharge	9,544	10,882	1,337.73	14.02%
Net Revenue Per Adjusted Discharge	9,646	10,235	589.35	6.11%
Oper Expense Per Adjusted Discharge	9,294	9,809	514.14	5.53%
Net Income Per Adjusted Discharge	352	427	75.21	21.39%
Financial Ratios				
Operating Margin	3.41%	3.92%	0.51%	14.84%
Total Margin	4.52%	5.07%	0.55%	12.28%
Deductible Proportion	49.74%	51.53%	1.80%	3.61%
Contractual Proportion - Total	47.89%	49.19%	1.30%	2.71%
Contractual Proportion - Medicare	57.73%	55.76%	-1.97%	-3.42%
Contractual Proportion - Medicaid	51.57%	52.23%	0.66%	1.28%
Contractual Proportion - Other	39.99%	43.45%	3.46%	8.64%
Bad Debt Proportion	2.35%	2.22%	-0.13%	-5.38%
Charity Proportion	1.85%	2.34%	0.50%	27.02%
Uncompensated Care Proportion	4.19%	4.57%	0.37%	8.88%
Total Revenue/Inpatient Revenue	176.07%	176.68%	0.006	0.35%
Outpatient Revenue Percent	43.21%	43.40%	0.20%	0.45%
Medicare Revenue Percent	34.72%	35.42%	0.70%	2.02%
Medicaid Revenue Percent	15.01%	15.68%	0.67%	4.47%